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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

March 31, 2002

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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

March 31, 2002

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APPOINTIVE OFFICIALS

Gerald J. LaChere, Lottery Director

L. John Onstad, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Robert Crippen	Butte	January 1, 2003
Clifford Brophy	Columbus	January 1, 2005
Bob Lake	Hamilton	January 1, 2005
Tom Keegan	Helena	January 1, 2006
Betty Wilkins	Missoula	January 1, 2006

REPORT DISTRIBUTION

According to Section 23-5-1007(7), MCA, copies of this report must be distributed to the following:

Governor - Judy Martz
Director of Dept. of Administration – Scott Darkenwald
Legislative Auditor - Scott Seacat
President of the Senate - Tom Beck
Speaker of the House - Dan McGee

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature".

The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – State Administration Committee

Allan Walters, Chair
Tom Dell, Vice Chair Minority
Dee Brown
Hal Jacobson
Michelle Lee
Ralph Lenhart
Doug Mood
Holly Raser
Clarice Schrumpf
Debby Barrett, Vice Chair Majority
Norma Bixby
Don Hedges
Larry Jent
Larry Lehman
Gay Ann Masolo
Alan Olson
Rick Ripley
Frank Smith

HOUSE – Business & Labor Committee

Joe McKenney, Chair
Gary Matthews, Vice Chair Minority
Roy Brown
Dave Gallik
Dennis Himmelberger
Jim Keane
Bob Lawson
Bill Price
Don Steinbeisser
Jim Whitaker
Rod Bitney, Vice Chair Majority
Sylvia Bookout-Reinicke
Nancy Rice Fritz
Kathleen Galvin-Halcro
Carol Juneau
Rick Laible
John Musgrove
Allen Rome
Brett Tramelli

SENATE – State Administration Committee

Don Hargrove, Chair
Ed Butcher
Jim Elliott
Fred Thomas
John Bohlinger, Vice Chair
Pete Ekegren
Eve Franklin
Ken Toole

SENATE – Business & Labor Committee

Mike Taylor, Chair
Dale Berry
Vicki Cocchiarella
Dale Mahlum
Don Ryan
Mack Sprague, Vice Chair
Ed Butcher
Sam Kitzenberg
Glenn Roush

Montana Lottery

March 2002

Montana Lottery Commission:

Total revenue for the third quarter of fiscal year 2002 increased slightly over the third quarter of the previous year, $7,777,514 compared to $7,711,416. However, the differences in each product were much greater. Instant ticket sales increased by $286,899, in part due to the introduction of the $5 ticket. Montana Ca$h also had increased sales of $149,004. Powerball, Wild Card and Rolldown experienced sales decreases of $149,628, $153,318, and $59,432 respectively. After accounting for prize expense and ticket costs, the net operating revenue increased by 9%, from $2,348,944 in the third quarter of fiscal year 2001 to $2,570,964 for the period just ended.

Year-to-date revenue for fiscal year 2002 continues to outpace fiscal year 2001, $25,765,058 compared to $22,393,896. All products, except Rolldown, are experiencing increased sales.

Operating expenses have been held in check and are less for both the third quarter and for the fiscal year. The expenses for this quarter are 6% less and for this fiscal year 2.5% less than the same time periods in fiscal year 2001.

Together, increased revenues and decreased expenses resulted in an increase in the General Fund transfer for the quarter of $1,745,166, a 15% increase over last year's transfer of $1,514,916. This quarter's transfer represented 22.4% of revenue. Likewise, the 2002 fiscal year-to-date transfer is substantially ahead of last year, $5,882,759 compared to $4,243,192, a 39% increase. One-time expense reductions of $190,935, as detailed last quarter, would reduce this increase to 34%.

Sincerely,

Gerald LaChere
by [illegible]

Gerald J. LaChere
Director

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Phone 406-444-LUCK (5825) • Fax 406-444-5830

MONTANA LOTTERY
BALANCE SHEETS
March 31, 2002 and 2001
(UNAUDITED)

	Period Ended March 31, 2002	Period Ended March 31, 2001
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 873,661	$ 922,403
Receivables (Net)	982,351	882,316
Due from Other Funds	2,020	13,374
Inventories	829,112	884,394
Other Current Assets	8,016	9,706
TOTAL CURRENT ASSETS	2,695,360	2,712,193
FIXED ASSETS		
Computer, Furniture & Equipment	4,769,593	4,769,593
Accumulated Depreciation	(2,030,931)	(1,341,934)
	2,738,662	3,427,659
INTANGIBLE ASSETS		
Software, net of Amortization	657,143	821,428
	657,143	821,428
OTHER ASSETS		
Multi-State Receivable	2,077,730	2,197,883
TOTAL ASSETS	$ 8,168,895	$ 9,159,163
LIABILITIES AND FUND EQUITY:		
CURRENT LIABILITIES		
Accounts Payable	$ 338,336	$ 408,205
Estimated Prize Liability	1,471,339	1,472,191
Due to Other Funds	18,923	24,232
Transfer Obligations	1,745,166	1,514,916
Deferred Revenue	71,003	61,089
Current Portion Long-Term Debt	1,041,455	989,796
TOTAL CURRENT LIABILITIES	4,686,222	4,470,429
LONG-TERM LIABILITIES		
MUSL Prize Liability	1,698,628	1,858,134
Note Payable	1,378,585	2,420,040
Accrued Compensated Absences	167,777	172,877
	3,244,990	4,451,051
TOTAL LIABILITIES	7,931,212	8,921,480
FUND EQUITY		
Contributed Capital	237,683	237,683
TOTAL LIABILITIES AND FUND EQUITY	$ 8,168,895	$ 9,159,163

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE QUARTERS ENDED MARCH 31, 2002 and 2001
(Unaudited)

	Quarter Ended March 31, 2002	Quarter Ended March 31, 2001	Nine Months Ended March 31, 2002	Nine Months Ended March 31, 2001
REVENUES:				
Instant ticket revenue	$ 2,451,757	$ 2,164,858	$ 7,295,102	$ 6,416,998
Powerball revenue	3,467,568	3,617,196	12,518,013	10,345,211
Montana Cash revenue	1,075,636	926,632	3,419,394	2,918,115
Wild Card revenue	612,242	765,560	2,004,021	1,930,313
Rolldown revenue	164,085	223,517	497,232	740,784
900 # Income	6,126	13,373	29,711	41,047
License, permits, and misc	100	280	1,585	1,428
Total Revenues	7,777,514	7,711,416	25,765,058	22,393,896
Cost of Ticket Revenue				
Instant ticket prize expense	(1,428,024)	(1,243,674)	(4,212,018)	(3,816,446)
On-line ticket prize expense	(2,510,148)	(2,783,910)	(8,779,711)	(7,918,791)
Retailer commission	(464,704)	(432,714)	(1,512,184)	(1,263,566)
Cost of tickets sold	(158,587)	(258,169)	(494,358)	(565,770)
Vendor fees	(645,087)	(644,005)	(2,154,445)	(1,870,752)
Net Operating Revenue	2,570,964	2,348,944	8,612,342	6,958,571
OPERATING EXPENSES:				
Advertising	110,791	140,266	355,571	424,166
Advertising Production	41,064	27,079	126,331	98,279
Audit Fees	2,566	1,624	24,252	16,587
Bad Debts Expense	(112)	(505)	(202)	(1,466)
Communications	25,307	32,095	75,610	90,308
Contractual Services	42,345	46,967	112,239	168,960
Depreciation and Amortization	212,772	203,903	639,318	570,356
Interest Expense	30,805	43,009	104,541	141,657
Management Service Fee	5,794	29,744	53,166	93,080
Multi-State Dues	0	1	76,426	49,614
Public Relations	1,008	7,821	54,156	34,570
Other	6,671	11,364	26,529	39,954
Personal Services	318,441	308,882	934,567	945,538
Repairs and Maintenance	2,500	9,841	15,061	28,266
Supplies and Materials	28,865	18,407	165,773	135,796
Travel	4,590	4,290	19,296	17,923
Utilities and Rent	24,202	25,435	72,321	74,427
Total Operating Expense	857,609	910,223	2,854,955	2,928,015
Operating Income	1,713,355	1,438,721	5,757,387	4,030,556
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	31,811	76,195	125,372	215,750
Gain/Loss on sale of asset	0	0	0	(3,114)
Total Nonoperating Revenues/Expenses	31,811	76,195	125,372	212,636
Income Before Operating Transfers	1,745,166	1,514,916	5,882,759	4,243,192
Operating Transfers In (Out) - General Fund	(1,745,166)	(1,514,916)	(5,882,759)	(4,243,192)
Total Operating Transfers Out	(1,745,166)	(1,514,916)	(5,882,759)	(4,243,192)
NET INCOME (LOSS)	0	0	0	0
Retained Earnings, Beginning of Period	0	0	0	0
RETAINED EARNINGS, END OF PERIOD	0	$ 0	$ 0	$ 0

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RETAINED EARNINGS
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2002
(Unaudited)

	Budgeted Fiscal Year July 1, 2001- June 30, 2002	Actual Nine Months Ended March 31, 2002 (Unaudited)	Actual as a Percent of Budget (%)
REVENUES:			
Instant ticket revenue	$ $10,400,000	$ 7,295,102	70.15
Powerball revenue	14,932,000	12,518,013	83.83
Montana Cash revenue	3,500,000	3,419,394	97.70
Wild Card revenue	2,650,000	2,004,021	75.62
Rolldown revenue	530,000	497,232	93.82
Replacement Game	450,000		0.00
900 # Income	50,000	29,711	59.42
License, permits, and miscellaneous	2,000	1,585	79.25
Total Revenues	32,514,000	25,765,058	79.24
COST OF TICKET REVENUE			
Prizes - instant ticket	6,095,000	4,212,018	69.11
Prizes - on-line games	10,949,760	8,779,711	80.18
Retailer commissions	1,935,100	1,512,184	78.15
Ticket cost - instant games	757,500	494,358	65.26
Ticket cost - vendor fees	2,710,577	2,154,445	79.48
Total Cost of Ticket Revenue	22,447,937	17,152,716	76.41
OPERATING EXPENSES:			
Advertising	538,504	355,571	66.03
Advertising Production	157,750	126,331	80.08
Audit Fees	41,405	24,252	58.57
Communications	105,925	75,610	71.38
Contractual Services	267,637	112,239	41.94
Interest Expense	133,844	104,541	78.11
Management Service Fee	85,856	53,166	61.92
Multi-State Dues	117,273	76,426	65.17
Public Relations	55,526	54,156	97.53
Other	65,701	26,529	40.38
Personal Services	1,275,655	940,067	73.69
Repairs and Maintenance	46,692	15,061	32.26
Supplies and Materials	233,975	165,773	70.85
Travel	39,978	19,296	48.27
Utilities and Rent	111,650	72,321	64.77
Equipment	784,000	0	0.00
Total Operating Expenses	4,061,371	2,221,339	54.69
Operating Income	6,004,692	6,391,003	106.43
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	100,000	40,292	40.29
Security Lending Transactions		0	
Loss on Sale on Asset		0	
NET INCOME (BUDGETARY BASIS)	$ 6,104,692	$ 6,431,295	105.35
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
1. Capitalized equipment purchases	784,000	0	0.00
2. Adjustment for compensated absences		5,500	
3. Adjustment for depreciation expense	(884,550)	(639,318)	72.28
4. Bad Debts		202	
5. MUSL interest earnings	175,000	85,080	48.62
Total Reconciling Items	74,450	(548,536)	
NET INCOME (GAAP BASIS)	$ 6,179,142	$ 5,882,759	95.20

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT
FOR THE NINE MONTHS ENDED MARCH 31, 2002
(UNAUDITED)

	INSTANT	POWERBALL	MONTANA CASH	WILD CARD	ROLLDOWN	ADMIN
REVENUES:	$ 7,295,102	$ 12,518,013	$ 3,419,394	$ 2,004,021	$ 497,232	$ 31,296
COST OF TICKET REVENUE:						
Pnze Expense	4,212,018	5,912,171	1,791,723	1,036,449	39,368	0
Retailer Commissions	589,348	626,474	171,227	100,262	24,873	0
Cost of Tickets Sold	494,358	0	0	0	0	0
Vendor Fees	603,245	1,053,110	287,665	168,593	41,831	0
NET OPERATING REVENUE	1,396,133	4,926,258	1,168,779	698,717	391,160	31,296
OPERATING EXPENSES:						
Advertising	225,068	79,324	16,618	16,618	16,618	1,325
Advertising Production	40,228	14,682	13,768	13,768	43,885	0
Audit Fees	0	0	0	0	0	24,252
Bad Debts	0	0	0	0	0	(202)
Communications	33,449	240	240	240	240	41,201
Contractual Services	23,871	2,507	2,819	2,464	17,286	63,292
Depreciation and Amortization	180,064	308,993	84,680	49,587	12,625	3,369
Interest	29,272	51,101	13,959	8,180	2,029	0
Management Service Fee	20,322	6,306	4,361	3,226	3,032	15,919
Multi-State Dues	0	8,420	0	30,110	5,347	32,549
Public Relations	25,506	6,826	6,826	6,826	6,826	1,346
Other	1,032	180	179	179	179	24,780
Personal Services	357,219	110,844	76,652	56,703	53,311	279,838
Repairs and Maintenance	0	0	0	0	0	15,061
Supplies and Materials	59,735	10,892	10,130	10,891	10,891	63,234
Travel	1,856	447	447	447	447	15,652
Utilities and Rent	0	0	0	0	0	72,321
TOTAL OPERATING EXPENSES	997,622	600,762	230,679	199,239	172,716	653,937
OPERATING INCOME	398,511	4,325,496	938,100	499,478	218,444	(622,641)
NONOPERATING REVENUES (EXPENSES)						
Security Lending Transactions	0	0	0	0	0	0
Interest Earnings	0	0	0	0	0	125,372
Gain(Loss) on Sale of Asset						0
Socioeconomic Impact of Gambling Study	0	0	0	0	0	0
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	125,372
NET INCOME BY PRODU	$ 398,511	$ 4,325,496	$ 938,100	$ 499,478	$ 218,444	$ (497,269)
PROFIT AS A % OF REVENUE	5.46%	34.55%	27.43%	24.92%	43.93%	N/A

NOTE: THIS IS ONLY NINE MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting agency.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Governmental Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Revenue Recognition. Lottery instant ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Lottery on-line ticket sales are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Free Tickets. Some Montana Lottery instant games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and nine months ended March 31, 2002 was $10,884 and $38,152 respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The lottery tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost are reclassified as an advertising expense. For the quarter ended March 31, 2002, promotional credits resulted in a revenue reduction of approximately $11,612 and a prize expense reclassification of approximately $8,080. For the nine months ended March 31, 2002, promotional credits resulted in a revenue reduction of approximately $67,111 and a prize expense reclassification of approximately $46,864.

Prizes. Expenses for instant prizes are recorded based on the predetermined prize structure for each game. Expenses for on-line prizes are recorded based on the predetermined prize structure for each on-line game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the online games, Powerball, Wild Card, Montana Cash, and Rolldown, must be claimed within six months after the appropriate draw date. Prizes for instant games must be claimed within six months of the announced end of each game. The unclaimed prize amounts are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all games is represented in the table below.

	Quarter Ended 3/31/02	Quarter Ended 3/31/01	Year To Date 3/31/02	Year To Date 3/31/01
Online	$224,023	$109,280	$477,924	$363,045
Instant	253,725	110,032	552,151	139,186
TOTALS	$477,748	$219,312	$1,030,075	$502,231

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit with a bank and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	March 31,	
	2002	2001
Short-term investment pool	$489,857	$376,097
Cash on deposit with State Treasurer	373,854	536,156
Cash in revolving deposit account	10,000	10,000
Petty Cash	150	150
TOTALS	$873,861	$922,403

Reference to the State of Montana's Comprehensive Annual Financial Report would identify the level of risk associated with cash and cash equivalents in the short-term investment pool and amounts retained with the State Treasurer. The bank balance of the revolving deposit account was $10,557 at March 31, 2002 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $1,201,287 representing amounts due the Lottery for tickets purchased by retailers. An allowance for doubtful accounts is reported as net of receivables and is based on historical perspective. As of March 31, 2002 the allowance is $5,900. An allowance for ticket returns is also included in the receivables amount. This allowance represents a reduction in receivables at March 31, 2002, for estimated ticket returns. This is an estimate based on returns received to date, as well as, an estimate of tickets unsold by retailers for games that

have an end public sale date prior to April 1, 2002. The allowance for ticket returns is $232,445 at March 31, 2002. The return of vendor fees related to the allowance for returns is $19,409.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes lottery tickets valued at $706,533 stored in the warehouse, at retailers prior to being activated by the retailer and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At quarter end, supplies inventories totaled $122,579. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets consist of the following:

	March 31,	
	2002	2001
Prepaid Expenses	3,216	4,186
Employee Advances	4,800	5,520
TOTALS	$8,016	$9,706

Transfer Obligations. The account "Transfer Obligations" is $1,745,166 payable to the General Fund at March 31, 2002.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2001	Net Leave Earned/(Used)	Balance March 31, 2002
$173,277	($5,500)	$167,777

Contributed Capital. During December 1994, the Lottery received 260 Neon Lotto Signs, 150 Lottery Play Stations and a Stratus R-5 Computer System from Automated Wagering International as part of its contract extension for Fiscal Years 1995 and 1996. The Neon Lotto signs were valued at $47,970, the Lottery Play Stations were valued at $34,500 and the computer equipment was valued at $155,213.

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on instant and on-line tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of instant tickets activated by the retailers and the face value of tickets sold for each on-line drawing. For the quarter and the nine months ended March 31, 2002 commissions totaled $464,704 and $1,512,184 respectively.

Retailers can receive bonus commissions on tickets sold based on incremental sales of instant tickets. During the quarter and nine months ended March 31, 2002 retailers earned bonus commissions of $75,005 and $219,884 respectively.

3. MARKETING PRODUCTION EXPENSES

The Lottery has contracted with several vendors to provide marketing related services and materials. These services include media placement, creative design and layout, and media production. Those services and materials not included in the Advertising and Advertising Production expense categories are printing and ticket dispensers. The cost of these services and materials, included in Operating Expenses as Contracted Services and Supplies and Materials, are detailed below for the nine months ended March 31, 2002:

Printing	$45,870
Ticket Dispensers	15,732
	$61,602

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services and supplies and materials from other state agencies. These services and materials are detailed below for the nine months ended March 31, 2002:

Insurance	$ 6,650
Warrant Writing Services	373
Payroll Services	894
Audit Fees	9,425
Work Study Contracts	11,161
Computer Fees	18,998
Records Retention Fees	660
Printing	6,784
State Accounting System Support	11,305
Supplies and Materials	6,670
Mail Processing Fees	4,197

Telecommunications	30,681
Public Relations	19,000
Indirect Costs	59,008
Other	5,749
TOTAL	$191,555

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game. For the quarter ended March 31, 2002, the prize expense of $3,938,172 is 50.68% of net Lottery ticket revenue of $7,771,288. For the nine months ended March 31, 2002, the prize expense of $12,991,729 is 50.49% of net Lottery ticket revenue of $25,733,762.

6. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended March 31, 2002, the net revenue payable to the State General Fund totaled $1,745,166.

7. MULTI-STATE LOTTERY JOINT VENTURE

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, and Rolldown are the games presently operated jointly by the members. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Receivable with a balance of $2,077,730, as of March 31, 2002 is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

Powerball Prize Reserve Account	$791,539
Powerball Unreserved Account	379,101

Powerball Set Prize Reserve Account	506,421
Wild Card Reserve Account	392,666
Rolldown Set Prize Reserve Account	8,003
TOTAL	$2,077,730

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. The Lottery made this payment in full as of June 1990, through an additional 2% of drawing revenue rather than making a lump sum payment. Payments made to this fund are considered a portion of prize expense associated with the game.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana and South Dakota is disbanded. The Lottery contributes to this account through the 55% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Rolldown Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Due to the nature of the game, this reserve has a cap of $200,000. The reserve amount would be returned to the Lottery one year after withdrawal from the Rolldown game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the Rolldown game.

8. GAMES

Currently, the Montana Lottery games are instant ticket games and four on-line games referred to as Powerball, Montana Ca$h, Wild Card, and Rolldown.

Instant ticket games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $10 million. A player must match all 6 numbers to win the jackpot; players win prizes ranging from $3 to $100,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery participated in the addition of Power Play to the Powerball game. For an additional bet, the Power Play option provides non-jackpot winners the chance to multiply their prize amount by a factor of one through five

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $100,000. Players select 5 numbers from a field of 31 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $5,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

Rolldown provides a feature different from any other lotto game: for each drawing, if no one wins the jackpot, all of the jackpot prize money is distributed to the three lower-tier prize levels on a pari-mutuel basis. Players select 5 numbers from 1 to 55 and must match all 5 numbers to win the jackpot; players win set prizes from $1 to $500 for matching less than all 5 numbers when the jackpot is awarded, or up to 4 times the prize amount if the jackpot is not won. Drawings are held 3 times a week on Tuesday, Thursday, and Saturday nights.

9. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Instant Tickets. On June 27, 2001 the Montana Lottery Commission approved the award of a one-year contract with Oberthur Gaming Technologies Corp. (Oberthur) for the provision of instant tickets; the resulting contract was signed on August 8, 2001. The contract is for one year with the option for six additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure

Oberthur, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $7,500,000. The Lottery may terminate this contract by providing proper notification to Oberthur.

On-line Services. On August 18, 1998, the Lottery signed a seven-year contract with Autotote Lottery Corporation to provide an on-line gaming system and associated services beginning March 28, 1999. The contract provides for payments to be made for the purchase of an on-line gaming system including terminals and software. The Lottery paid Autotote Lottery Corporation $5,025,311 for the system on April 26, 1999. Payment under the contract is also based on 8.35% of weekly Lottery sales.

10. CONTINGENT LIABILITIES - PRIZE ANNUITIES

During fiscal year 1989, the Montana Lottery awarded four Big Spin Jackpot prizes totaling $5,000,000. The Lottery made the initial payments to the winners in the amount of $253,088 and on September 26, 1988 the Montana Lottery awarded annuities in the amount of $2,350,180 to Western National Life. Through these annuities, Western National Life makes the remaining payments to the Big Spin Jackpot winners. As of March 31, 2002 the contingent liability for future prize payments funded through the purchase of annuities was $1,203,676.

11. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America

jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

As of March 31, 2002 the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Lotto*America winners was $26,885,731. The combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was $29,080,218.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

12. LEASES

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a noncancelable lease agreement that expired February 2002. The monthly lease payments were $6,500. The Lottery has reached an interim agreement to continue leasing the same facilities that includes a 10% increase the first year and 1.5% increase each year for years two through five. When this agreement is finalized, it will be retroactive to March 2002.

13. LONG-TERM DEBT

Note Payable. A contract with Autotote Lottery Corporation required the purchase of an online gaming system including terminals and software. The Lottery paid Autotote Lottery Corporation $5,025,311 for the system by entering into a loan

agreement with Norwest Investment Service, now known as Wells Fargo Brokerage Services, LLC. The loan will be repaid in quarterly installments of $286,394.30 over the next five years. The first payment was due July 26, 1999. The interest rate on the loan is 5.12%.

Maturities of Long-term Debt

Year Ended June 30,	
2002	1,002,466
2003	1,054,786
2004	1,109,836
2005 and beyond	0
Total	$ 3,167,088

Alternative accessible formats of this document will be provided upon request.